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Mexico

Livestock and Products

Annual Report

2004

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Report Highlights:
CY 2005 beef production is forecast to decrease slightly, due to an expected increase in U.S. beef imports as a result of recently implemented and increased risk mitigation measures for BSE in the United States. CY 2004 beef production is expected to remain at relatively high levels, due to the continued ban on imports of live cattle, bone-in beef and other beef derived products from the United States due to BSE concerns. For CY 2004, strong export performance is expected for live cattle and to a lesser extent for beef, as the Japanese market begins to open up for Mexican beef. For both CY 2004 and CY 2005, hog imports are expected to remain at near-record levels as the industry takes advantage of protein demand fueled by the ban on selected beef imports.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Executive Summary

The drought that affected much of northern Mexico in CY 2002 and into CY 2003, appears to be subsiding, with precipitation returning to a much more normal pattern, especially in the north-central and northeastern states. For CY 2004, fodder availability for range-fed livestock has improved in recent months; however, fodder reserves and feed prices have yet to return to more normal levels. In spite of a return to more normal weather conditions, the drought's impacts will likely continue to linger for the next couple of years.

The drought in northern Mexico forced many producers in CY 2003 to sell animals, many of which were stressed, due to a lack of feed and water. The considerable number of animals sold domestically, led to a marginal drop in animal prices in the first half of CY 2004 and also reduced cattle inventory. The closure of the border to imports of live cattle and selected beef cuts from the United States due to BSE concerns, allowed domestic cattle and beef to take up the lack of imports in the first quarter of CY 2004. With the continued ban on imports of live cattle and bone-in beef from the United States due to BSE concerns and the expected high slaughter rates in CY 2004, cattle inventories are estimated to continue with a downward pattern into CY 2005 and are expected to begin rising, perhaps, toward the end of CY 2005 or early CY 2006, as producers seek to rebuild their herds.

Higher feed grain costs brought on by the drought also limited the profitability of Mexico's cattle feedlot and swine sectors and reduced inventories of cattle on feed and pigs. Nevertheless, the ban on live cattle and selected beef imports due to BSE concerns is providing some relief to these intensive livestock feeders whose cost structure is heavily influenced by grain costs.

Beef production is expected to remain at relatively high levels in CY 2004, taking up the slack caused by the reduction of imports of live cattle and selected beef products due to BSE concerns. For CY 2005, production is forecast downward as cattle inventories are being depleted due to high slaughter rates during CY 2004. Exports are expected to stay strong in CY 2004 and CY 2005. The United States and Japan are the leading markets for Mexican beef, taking about two-thirds of all shipments. Live cattle exports are also expected to continue at near-record levels through CY 2004 but are expected to drop in CY 2005 due to low inventories.

Pork exports and imports both remain at near-record levels. Mexico's exports of pork, principally to Japan, have grown in recent years and are expected to continue upward due to the free trade agreement recently signed between Mexico and Japan. Pork imports continue at high levels, with the United States and Canada being the leading suppliers.

Estimated and forecasted increases in Mexican pork production for CY 2004 and CY 2005 have been the result of attractive domestic prices fueled by the ban on imports of selected beef products from the United States due to BSE concerns. Pork imports are projected to reach 385,000 metric tons in CY 2004 and CY 2005, almost 11.2 percent greater than the revised figure in CY 2003.

SECTION II. STATISTICAL TABLES

PS&D, Animal Numbers, Cattle (1000 Head)

PSD Table						
Country:	Mexico					
Commodity:	CATTLE					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2003		01/2004		01/2005	
Total Cattle Beg. Stocks	20519	20519	19524	19524		17684
Dairy Cows Beg. Stocks	2200	2200	2200	2200		2200
Beef Cows Beg. Stocks	11300	11300	11350	11350		11000
Production (Calf Crop)	8900	8900	9150	9150		8600
Intra EC Imports	0	0	0	0		0
Other Imports	53	53	35	35		30
TOTAL Imports	53	53	35	35		30
TOTAL SUPPLY	29472	29472	28709	28709		26314
Intra EC Exports	0	0	0	0		0
Other Exports	1240	1240	1150	1150		900
TOTAL Exports	1240	1240	1150	1150		900
Cow Slaughter	1600	1600	1800	1800		1700
Calf Slaughter	1600	1600	1545	1545		1500
Other Slaughter	5120	5120	5980	5980		5500
Total Slaughter	8320	8320	9325	9325		8700
Loss	388	388	550	550		500
Ending Inventories	19524	19524	17684	17684		16214
TOTAL DISTRIBUTION	29472	29472	28709	28709		26314

PS&D, Meat, Beef and Veal (1000 Head) (K Metric Tons)

PSD Table						
Country:	Mexico		Conversion factor for CWE 1.36			
Commodity:	Cattle, MEAT, BEEF and VEAL					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2003		01/2004		01/2005	
Slaughter (Reference)	8320	8320	9325	9325		8700
Beginning Stocks	0	0	0	0		0
Production	1950	1950	2200	2200		2050
Intra EC Imports	0	0	0	0		0
Other Imports	370	353	250	250		300
TOTAL Imports	370	353	250	250		300
TOTAL SUPPLY	2320	2303	2450	2450		2350
Intra EC Exports	0	0	0	0		0
Other Exports	12	4	10	10		15
TOTAL Exports	12	4	10	10		15
Human Dom. Consumption	2288	2279	2420	2420		2315
Other Use, Losses	20	20	20	20		20
TOTAL Dom. Consumption	2308	2299	2440	2440		2335
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	2320	2303	2450	2450		2350

PS&D Animal Numbers, Swine (1000 Head)

PSD Table						
Country:	Mexico					
Commodity:	Swine					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2003		01/2004		01/2005	
TOTAL Beginning Stocks	10700	10549	10755	10668		10303
Sow Beginning Stocks	925	925	930	930		940
Production (Pig Crop)	15300	15300	15350	15350		15450
Intra EC Imports	0	0	0	0		0
Other Imports	120	184	150	300		300
TOTAL Imports	120	184	150	300		300
TOTAL SUPPLY	26120	26033	26255	26318		26053
Intra EC Exports	0	0	0	0		0
Other Exports	0	0	0	0		0
TOTAL Exports	0	0	0	0		0
Sow Slaughter	15	15	15	15		15
OTHER SLAUGHTER	13850	13850	14500	14500		14500
Total Slaughter	13865	13865	14515	14515		14515
Loss	1500	1500	1520	1500		1500
Ending Inventories	10755	10668	10220	10303		10038
TOTAL DISTRIBUTION	26120	26033	26255	26318		26053

PS&D, Meat, Swine (1000 Head) (K Metric Tons)

PSD Table						
Country:	Mexico		Conversion factor for CWE 1.3			
Commodity:	Swine, MEAT					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2003		01/2004		01/2005	
Slaughter (Reference)	13865	13865	14515	14515		14600
Beginning Stocks	0	0	0	0		0
Production	1100	1100	1150	1150		1175
Intra EC Imports	0	0	0	0		0
Other Imports	371	346	385	385		385
TOTAL Imports	371	346	385	385		385
TOTAL SUPPLY	1471	1446	1535	1535		1560
Intra EC Exports	0	0	0	0		0
Other Exports	48	28	30	30		30
TOTAL Exports	48	28	30	30		30
Human Dom. Consumption	1423	1418	1505	1505		1530
Other Use, Losses	0	0	0	0		0
TOTAL Dom. Consumption	1423	1418	1505	1505		1530
Ending Stocks	0	0	0	0		0
TOTAL DISTRIBUTION	1471	1446	1535	1535		1560

Cattle Slaughtered in Federally Inspected Type (TIF) and Municipal Slaughterhouses

Total	2002	2003	2004	% Change	
				02-03	03-04
	3,985,222	4,281,532	2,312,000	7.4	N/A

SOURCE: Confederacion Nacional Ganadera (CNG) with data from SAGARPA

*As of June 30, 2004

Cattle Slaughtered In-Situ Slaughterhouses

Total	2002	2003	2004	% Change	
				02-03	03-04
	4,328,012	4,650,000	2,497,050	7.4	N/A

Note: * Figures are estimated. No official data are available for this category

Hogs Slaughtered in Federally Inspected Type (TIF) and Municipal Slaughterhouses

Total	2002	2003	2004	% Change	
				02-03	03-04
	9,465,584	9,993,899	5,296,700	5.5	N/A

SOURCE: Confederacion Nacional Ganadera (CNG) with data from SAGARPA

*As of June 30, 2004

Hogs Slaughtered In-situ Slaughterhouses

Total	2002	2003	2004	% Change	
				02-03	03-04
	4,386,899	4,628,100	2,441,300	5.5	N/A

Note: * Figures are estimated. No official data are available for this category

Grass Fed Live Steer Average Wholesale Prices in Mexico City
(US$/Lb.)

Month	2002	2003	2004	% Change	
				02-03	03-04
January	0.731	0.738	0.739	0.95	0.13
February	0.732	0.738	0.702	0.81	(4.87)
March	0.735	0.737	0.735	0.27	(0.27)
April	0.736	0.736	0,721	0	(2.03)
May	0.740	0.742	0.709	0.27	(4.44)
June	0.740	0.742	N/A	0.27	N/A
July	0.738	0.740	N/A	0.20	N/A
August	0.736	0.738	N/A	0.27	N/A
September	0.736	0.738	N/A	0.27	N/A
October	0.684	0.740	N/A	0.27	N/A
November	0.677	0.742	N/A	0.27	N/A
December	0.676	0.743	N/A	0.26	N/A

Source: National Market Information Service (SNIM)

Beef Carcass Average Wholesale Prices in Mexico City
(US$/Lb.)

Month	2002	2003	2004	% Change	
				02-03	03-04
January	1.17	1.17	1.11	0	(5.4)
February	1.18	1.19	1.12	0.84	(6.2)
March	1.18	1.20	1.11	1.69	(8.1)
April	1.17	1.20	1.09	2.56	(10.0)
May	1.16	1.20	1.06	3.44	(13.2)
June	1.18	1.19	N/A	0.84	N/A
July	1.18	1.19	N/A	0.84	N/A
August	1.17	1.18	N/A	0.85	N/A
September	1.16	1.18	N/A	1.72	N/A
October	1.16	1.19	N/A	2.58	N/A
November	1.18	1.20	N/A	1.69	N/A
December	1.19	1.22	N/A	2.52	N/A

Source: National Market Information Service (SNIM)

Finished Live Hog Average Wholesale Prices in Mexico City

(US$/Lb.)

Month	2002	2003	2004	% Change	
				02-03	03-04
January	0.650	0.599	0.598	(7.8)	(0.16)
February	0.581	0.588	0.600	1.20	2.04
March	0.554	0.571	0.607	3.06	6.30
April	0.547	0.551	0.596	0.73	8.16
May	0.550	0.551	0.655	0.18	18.87
June	0.554	0.555	N/A	0.18	N/A
July	0.557	0.559	N/A	0.35	N/A
August	0.552	0.559	N/A	1.26	N/A
September	0.553	0.562	N/A	1.62	N/A
October	0.567	0.569	N/A	0.35	N/A
November	0.588	0.593	N/A	0.85	N/A
December	0.590	0.610	N/A	3.38	N/A

Source: National Market Information Service (SNIM)

Pork Carcass Average Wholesale Prices in Mexico City

(US$/Lb.)

Month	2002	2003	2004	% Change	
				02-03	03-04
January	0.998	0.864	0.934	(15.50)	8.10
February	0.927	0.865	0.906	(7.16)	4.73
March	0.931	0.865	0.866	(7.63)	0.11
April	0.898	0.869	0.846	(3.33)	(2.64)
May	0.836	0.867	0.925	3.70	6.68
June	0.838	0.867	N/A	3.46	N/A
July	0.840	0.870	N/A	3.57	N/A
August	0.840	0.870	N/A	3.57	N/A
September	0.842	0.873	N/A	3.68	N/A
October	0.842	0.873	N/A	3.68	N/A
November	0.849	0.894	N/A	5.30	N/A
December	0.857	0.913	N/A	6.53	N/A

Source: National Market Information Service (SNIM)

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

Production

Mexico's cattle production and marketing systems differ considerably from the north of the country to the south. The cattle industry in the north is more typically characterized by a relatively small number of medium-scale producers raising both Brahman breeds (*bos indicus*) and European breeds (*bos taurus*) on extensive land operations. Northern cattle have traditionally been sold as mature lean meat for processing or for the live cattle export trade. In the south, Brahman cattle and their hybrids dominate and animals are typically raised on mixed farming and grazing operations. Cattle raised in the south are more likely to be destined for domestic consumption than the more export-oriented north. In addition, Mexico has a small but growing grain-fed cattle industry, which is intended to serve the domestic and export markets in the United States and Japan.

The calf crop is projected at 9.15 million head in CY 2004, up one quarter of million from the drought-reduced levels of CY 2003. In CY 2005, calf production is expected to drop to 8.6 million head reflecting low fertility rates fueled by lower beginning stocks and increased slaughter in CY 2004.

Grain finishing of cattle in Mexico is gradually expanding as producers seek to increase the quality and value of their products and to meet expected demand for grain-fed beef in Japan, the United States and the domestic market. Nevertheless, the continuation of relatively high feed costs is expected to limit a more rapid growth in grain-fed cattle in CY 2004 and CY 2005.

Beef and veal production in CY 2004 is estimated at 2,200 MT in carcass weight equivalents (CWE) respectively, 12.8 percent higher than in CY 2003, due to increased domestic production to offset the decline in U.S. beef imports as a result of BSE. For CY 2005, post forecasts production downward as imports are expected to increase due to improved safety measures implemented by the U.S. authorities against BSE risks, and producers return to herd building. These lower slaughter figures are expected to be partially offset by heavier slaughter weights as seasonal conditions and pasture availability return to more normal levels. The lower slaughter and production figures forecast for CY 2005 reflect a return to herd rebuilding, following the BSE concerns on imports of live cattle and beef and the droughts northern Mexico has experienced in the past several years.

Cattle slaughter in CY 2004 is estimated at 9.3 million head, up approximately 12 percent from CY 2003. The increase in slaughter rates reflects the stopping of all imports of live cattle and beef from the United States due to BSE concerns in the first quarter of CY 2004. For CY 2005, slaughter rates are forecast to decrease due to increased safety measures implemented by the U.S. authorities against BSE risks and the anticipated return to herd rebuilding following the depopulation that occurred during the BSE scare and the drought. Post expects that improving cattle prices and a return to more normal weather conditions will encourage producers to increase cattle numbers.

Consumption

Increases in the slaughter of domestic cattle enabled domestic cattlemen to increase supply in the short term. As a result of BSE concerns and limitations of beef imports from the United States, overall domestic beef consumption is estimated to increase in CY 2004. Beef and veal consumption is estimated at 2,420 MT in CY 2004 and is forecast to decrease to 2,350 MT in CY 2005 due to an expected increase in imports fueled by the additional safety measures implemented by the United States against BSE risks and the necessity of herd rebuilding. Regardless of increased imports of beef, consumer and media reaction seems to be one of confidence in the safety of Mexican beef. Therefore, beef prices and beef quality, rather than consumer concerns over food safety, are likely to have the primary effect on consumption. Most media reaction has focused on the stated objective of Mexican cattlemen to expand the supply of domestic beef and diminish the "pressure" from the United States to re-open the market. However, Mexico's production of beef still has to be supplemented with imports to satisfy domestic consumption as exports grow. For CY 2003 consumption is revised downward to reflect offical data.

Trade

Mexican imports of U.S. beef for CY 2004, although reduced to zero in the first quarter, are now estimated to reach 250,000 metric tons (cwe) for the remainder of the year. This is due to the re-opening of the borders to U.S. boneless beef and the implementation by the United States of new safety measures to guard against any risk of BSE contamination. Much for the same reason, imports for CY 2005 are forecast to reach 300,000 metric tons (cwe). For CY 2003, imports were reduced to reflect official data.

As for exports, CY 2005 levels are forecast to increase to about 15,000 metric tons (cwe), a 50-percent increase from the CY 2004 estimate, due to an expected increase in exports to Japan as a result of the recently signed free trade agreement. Much for the same reason as above, CY 2004 beef exports are estimated at 10,000 metric tons (cwe). Beef exports during CY 2003 were revised downward reflecting official data. For CY 2005, exports of live slaughter cattle are forecast at 900,000 head due to national herd building requirements to offset the high slaughter rates estimated for CY 2004. CY 2004 live slaughter cattle exports are estimated at 1.5 million head, 7.8 percent less than the previous year, due to retention of cattle to satisfy domestic demand of beef caused by the closing of the Mexico-U.S. border to imports of beef during the BSE scare. For CY 2003, live slaughter cattle exports remain unchanged reflecting official data.

The average live weight prices of hogs in CY 2003 increased only slightly from the previous year's average price due to poor production offset by competition from imports. Local hog raisers blame the entry of dumped or illegally imported pork and pork products for low prices. As a result, concerned industry groups have petitioned the GOM for appropriate protective measures (see POLICY section).

Policy

On April 2, 2004, the Secretariat of Economy (SE) published in the *Diario Oficial* (Mexico's Federal Register) the final decision of the NAFTA binational resolution panel. The panel determined that Mexico was not able to demonstrate that U.S. beef meat imports were damaging Mexican domestic industry. This decision could lead to the amendment of Mexico's antidumping duties on U.S. beef meat imports from selected U.S. exporters. The Mexican government has 90 days to present its justification for the imposition of these duties. This justification can, in turn, be challenged by the panel should it disagree with Mexico's justification. This dispute began in 1998, with the beginning of the GOM's dumping investigation.

Although no immediate benefit is foreseen for U.S. exporters who were slapped with compensatory duties on August 2, 1999, the panel's preliminary decision may have positive results for those exporters who requested and submitted additional information as proof that their sales in Mexico did not constitute dumping prices. Furthermore, should the GOM agree with the NAFTA panel's decision, the current compensatory duties being paid by selected U.S. exporters will be adjusted or eliminated.

The Mexican government has officially announced the preliminary resolution of the investigation of dumping charges filed by the Mexican Pork Council (CMP) against importers and exporters of U.S. pork meat classified in tariff codes 0203.11.01, 0203.12.01, 0203.19.99, 0203.21.01, 0203.22.01 and 0203.29.99. Mexico has determined that there is not sufficient evidence to impose compensatory duties.

After ruling against the abovementioned dumping investigation requested by the Mexican Council of Swine Breeders (CMP) on a range of pork products (see MX4077), the Mexican government has officially announced initiation of a subsequent investigation on dumping charges filed against importers and exporters of U.S. pork legs.

On May 25, 2004, Mexico published its final Resolution on the appeal for reinstatement of compensatory duties on imports of live hogs for slaughter originating from the United States. The decision upholds the decision taken on May 23, 2003 to eliminate the $0.351 dollars per kilogram compensatory duty, maintaining the tariff on imports of live hogs for slaughter at zero.

Marketing

U.S. livestock and beef exporters, new to the Mexican market, are encouraged to contact the following trade organizations for further market information.

THE U.S. AGRICULTURAL TRADE OFFICE BRUCE ZANIN, DIRECTOR JAIME BALMES NO. 8 - 2ND. FLOOR 11510 MEXICO, D.F. PH. (525) 280-5291/5276; FAX. (525) 281-6093 ZANINB@fas.usda.gov
U.S. MEAT EXPORT FEDERATION JAIME BALMES NO. 8 – 2ND. FLOOR 11510 MEXICO D.F. PH. (525) 5281-6100 ; FAX (525) 5281-6013 GILBERTO LOZANO, DIRECTOR
CONFEDERACION NACIONAL GANADERA MARIANO ESCOBEDO NO. 714 COL. ANZURES MEXICO, D.F. 11590 PH. (525) 5254-3245; FAX (525) 5254-2574 GUSTAVO FLORES, PRESIDENT
CONSEJO NACIONAL DE PORCICULTORES JUAN DE LA BARRERA NO. 38 COL. CONDESA 06140 MEXICO, D.F. PH. (525) 5212-1290, FAX. (525) 5211-1379 ENRIQUE DOMINGUEZ, GENERAL DIRECTOR diegob@inifap2.inifap.conacyt.mx